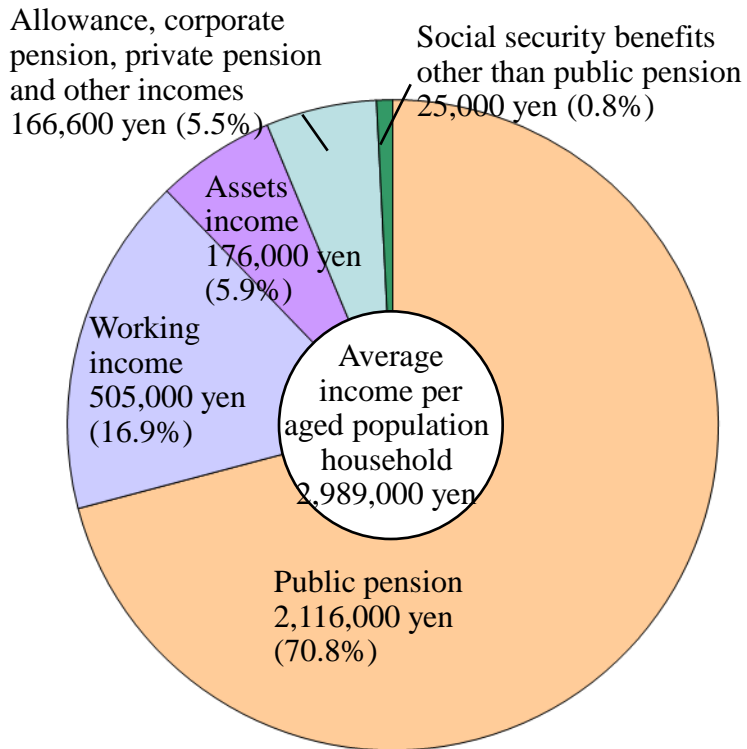


Overview of Pension System 1

General Affairs Division, Pension Bureau,
Ministry of Health, Labour and Welfare

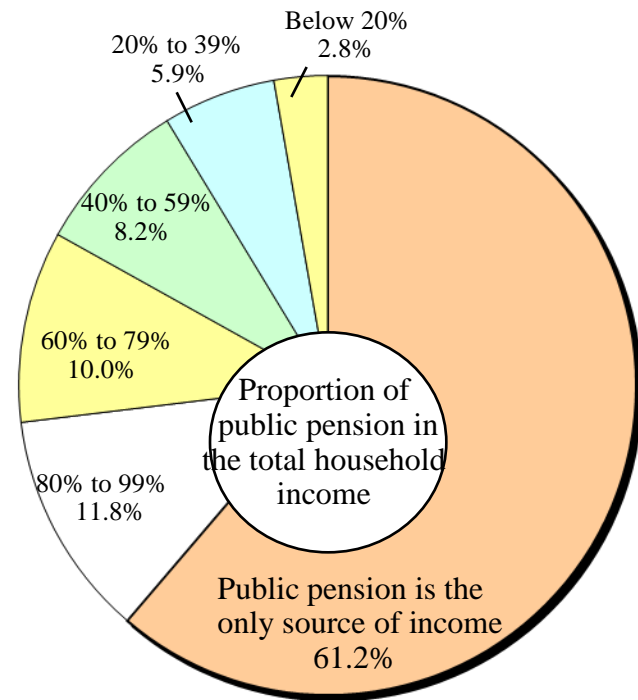
Roles of pension (1)

1) Pension makes up 70% of aged population's household income



Source: National Livelihood Survey 2008 (MHLW)

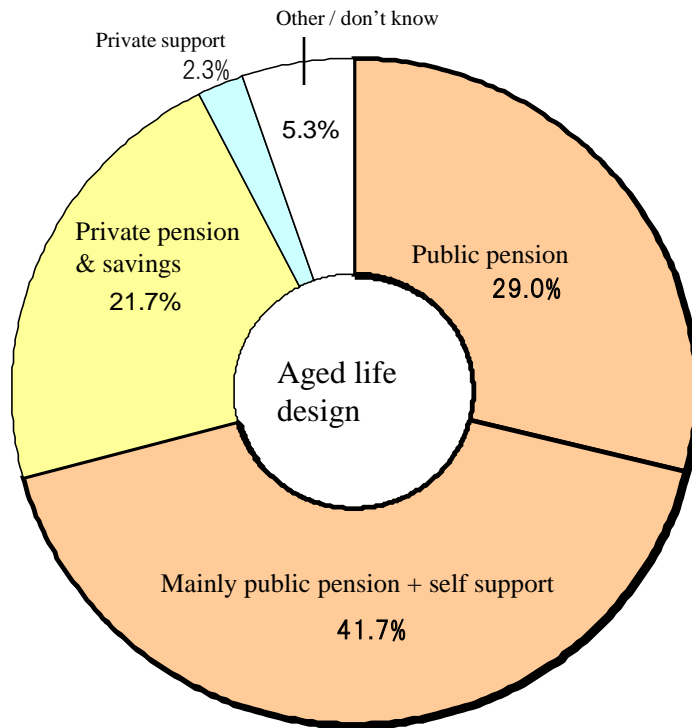
2) Pension is the only source of income for 60% of all aged population households



Source: National Livelihood Survey 2008 (MHLW)

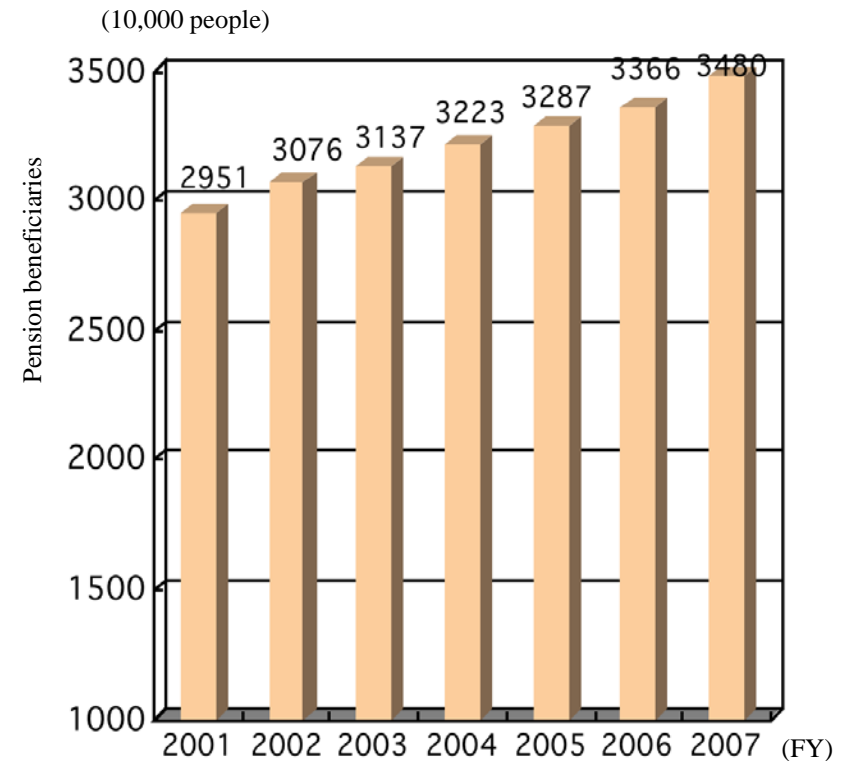
Roles of pension (2)

3) In the aged life design, 70% of the population depend on a pension



Source: poll on pension system (Cabinet Office, 2003)

4) One out of every four people receives a pension



Source: overview of social insurance service (Social Insurance Agency)

Roles of pension (3)

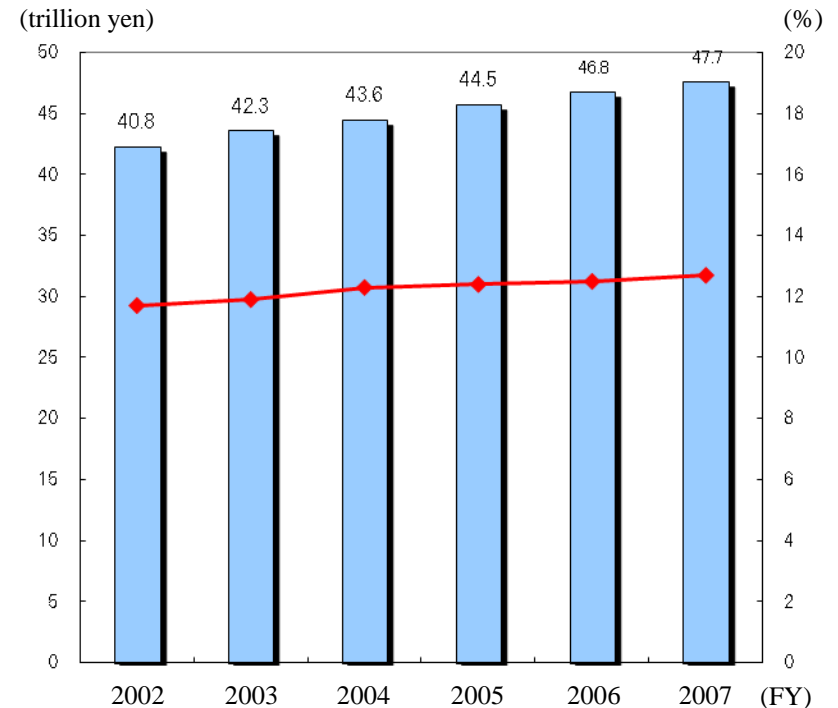
5) Support to local economies

- Pension supports 20% of Consumption of Households in some areas

Seven prefectures with the largest pension ratio in Prefectural Income

Prefecture (Population aging rate)	Pension ratio in Prefectural Income	Pension ratio in Consumption of Households
Shimane (27.1%)	15.2%	22.4%
Kochi (25.9%)	15.4%	18.4%
Ehime (24.0%)	14.5%	20.8%
Yamaguchi (25.0%)	13.7%	22.7%
Nagasaki (23.6%)	14.2%	21.0%
Tottori (24.1%)	14.7%	18.1%
Okayama (22.4%)	13.7%	19.8%

6) Total pension value reaches 47.7 trillion yen, making up 12.7% of National Income



Source: overview of social insurance service (Social Insurance Agency)

Meaning of Public Pension

The public pension system is aimed at making up for a decrease in working income due to aging, disability, bereavement or other reasons, thereby securing the lives of the aged, disabled and bereaved in terms of income.

Basic concept of public pension

Public pension is ...

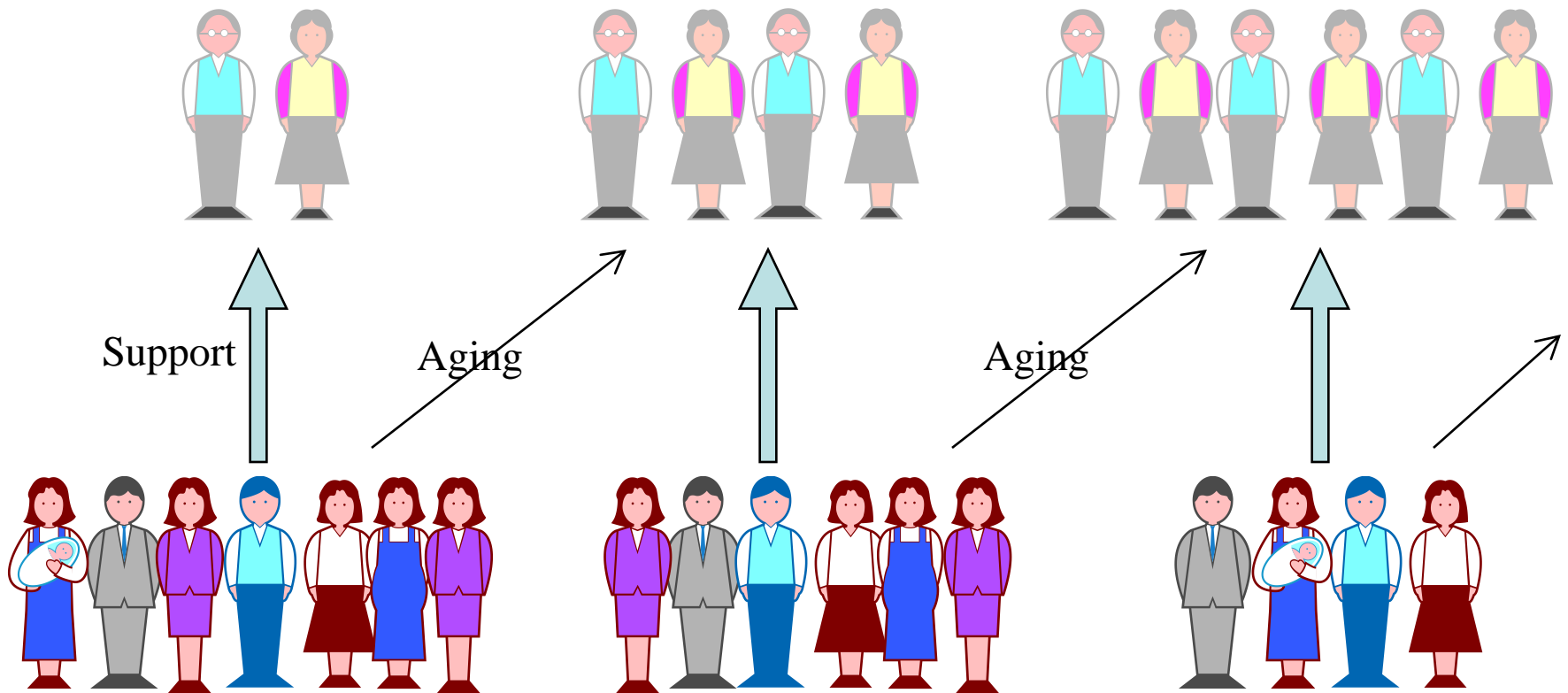
A scheme for inter-generation support

= Support by younger generations

= Socialized family support

= Financial management based on premium imposition

What is inter-generation support?



Strengths and weaknesses of inter-generation support

Strengths

Capable of preparing for unexpected risks

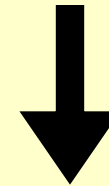
- Changes in living standards (wage and prices)
- Length of aged life

Income transfer scheme operated under the government's responsibility
= No risk of collapse

There is also a disabled pension and bereaved family pension

Weaknesses

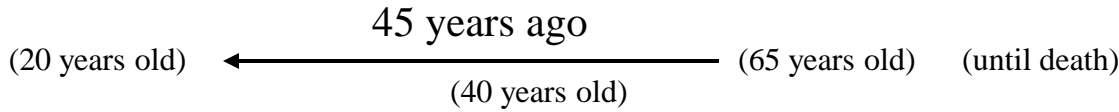
Lower birth rate & aging population



Must review the burden on supporting generations and the benefit to supported generations

Time length from enrollment in the pension system to becoming a beneficiary

Person who became 65 years old in 2001



Average monthly salary of office workers

approx. 20,000 yen

approx. 130,000 yen

approx. 300,000 yen



Large changes in the economy and society



Pension in proportion to living standards

1956

1976

2001

* Disabled pension and bereaved family pension may become necessary before the person becomes aged.

2046

2061

* Persons who are 65 years old at present have paid part of their income as a pension premium, since the era when the average salary was 20,000 yen. Based on these payment records, they are able to receive a pension in proportion to the era when the average salary is 300,000 yen for their lifetime (wage and prices sliding scale).

Person who became 20 years old in 2001

* As the past example indicates, for the person aged 20, what living (wage) standards will be like 45 years or more later is unforeseeable. Preparations for income during old age will be meaningless unless the pension is in proportion to the living standards in that unforeseeable future.



(20 years old)

Unforeseeable changes in society and economy and the person's life span

45 years later

60 years later

(65 years old)

(80 years old)

* What age a person will live to is unforeseeable.

Significance and roles of public pension

1) For the aged generations:

Prevents fall into poverty

Provides basic income during old age

2) For the working generations:

Frees them from the duty of supporting their parents

3) For companies:

Enables employees to concentrate on work

Supports aged population's consumption

4) For society:

Ensures stability of society and economy

Inter-generation support (imposition method) vs. funding method

- A “funding method” refers to a system where premiums are refunded to payers with management interests (similar to savings and private pensions)
 - Can it respond to changes in living standards?
 - What will be the difference to savings and private pensions?
 - Who will take responsibility for management risks?
 - Will a shift from the imposition method to the funding method be understood?
= Occurrence of “double payers*”
 - * Generations who must pay both inter-generation premium before the shift and own premium after the shift
- Public pension systems in advanced countries adopt the imposition method.
- Private pensions have the roles of complimenting a public pension and satisfying diverse needs during old age.

Tax method vs. social insurance method

Major issues

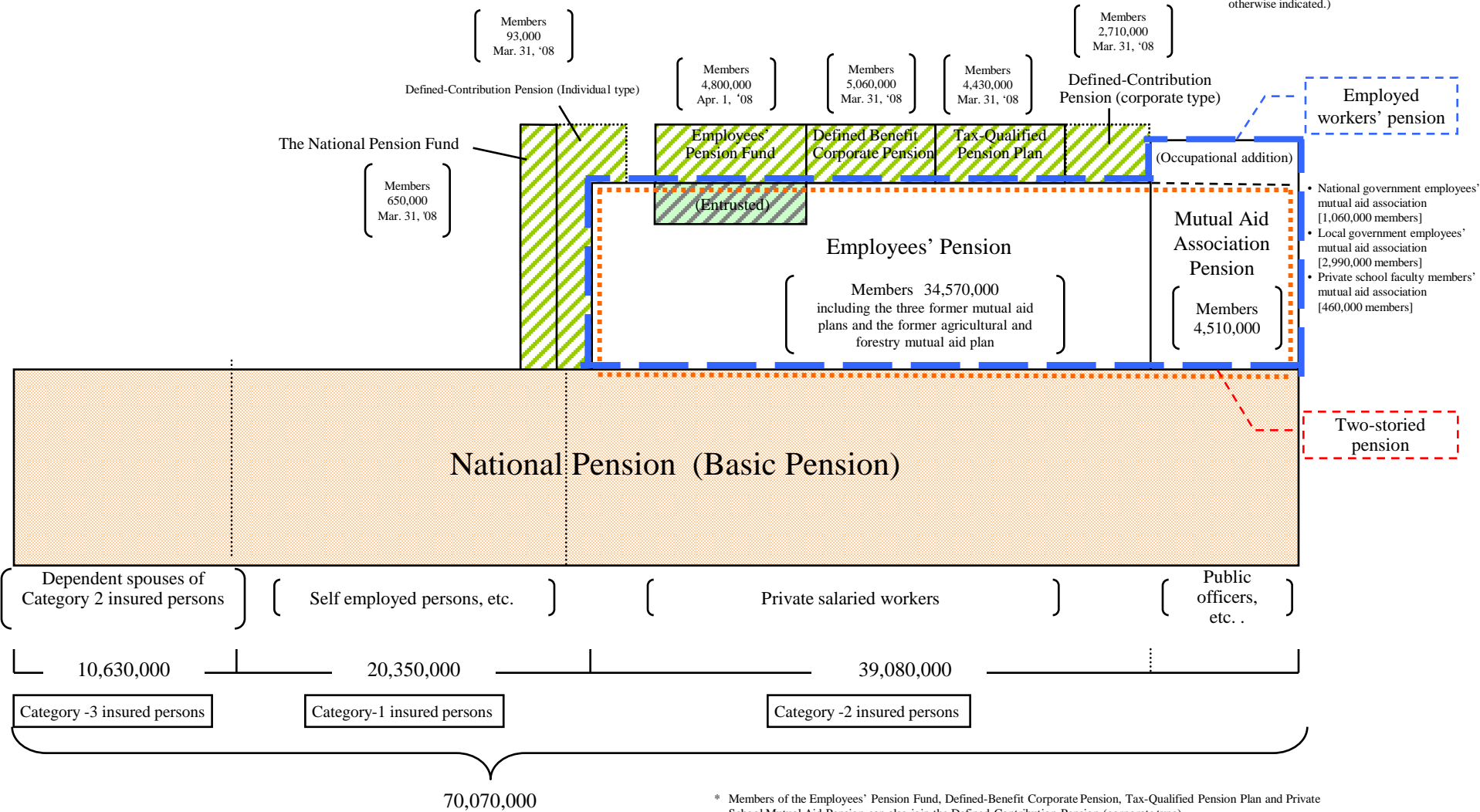
- Underlying concepts (philosophies and principles)
- Relationship between payment and coverage
- Relationship to welfare benefits
- How to ensure funding

→ Reflect in specific system design

Benefit amount, income limitation, collection method,
etc.

Japanese Universal Pension system

(Figures are as of March 31, 2008, unless otherwise indicated.)



* Members of the Employees' Pension Fund, Defined-Benefit Corporate Pension, Tax-Qualified Pension Plan and Private School Mutual Aid Pension can also join the Defined-Contribution Pension (corporate type).
 * Members of the national pension fund can also join the defined contribution pension (individual type).
 * The Tax-Qualified Pension Plan will be taken over by other corporate pension plans, etc. by the end of FY2011.

History and structure of Japanese pension system

	Since June 1942	Since April 1961	Since April 1986
Payment	<p>Self employed persons Agricultural workers</p> <p>Private company employees</p> <p>Public servants</p> <p>Fixed + proportional</p> <p>Proportional</p> <p>Employees' pension insurance</p> <p>Public pension</p>	<p>Self employed persons Agricultural workers</p> <p>Private company employees</p> <p>Public servants</p> <p>Fixed</p> <p>Fixed + proportional</p> <p>Proportional</p> <p>National Pension</p> <p>Employees' pension</p> <p>Mutual aid pension</p>	<p>Self employed persons Agricultural workers</p> <p>Private company employees</p> <p>Public servants</p> <p>Fixed</p> <p>Fixed + proportional</p> <p>Basic pension + Employees' pension, Mutual aid pension</p>
Premium	<p>—</p> <p>Proportional to salary</p> <p>No coverage</p>	<p>Fixed</p> <p>Proportional to salary</p> <p>Proportional to salary</p>	<p>Fixed</p> <p>Proportional to salary</p> <p>Proportional to salary</p>

Reference: Transition of employees in each industry type

	1960	1985	2000 (vs. 1960)
Primary industry	32.7%	9.3%	5.0% (- 27.7%)
Secondary industry	29.1%	33.1%	29.5% (+ 0.4%)
Tertiary industry	38.2%	57.3%	64.3% (+ 26.1%)

Pension payment and premium status in FY2009

○Pension payment

(monthly values)

	FY2009
(National Pension Basic Pension for the aged: one person)	66,008 yen
(National Pension Basic Pension for the aged: a married couple)	132,016 yen
(Employees' Pension Standard pension payment including the and the Basic Pension for a married couple)	232,592 yen

Note: The value for the employees' pension assumes that the husband worked for 40 years at an average income level (average standard remuneration: 360,000 yen), throughout which time his wife was a full-time homemaker (a new household payment criteria).

○Premium

National Pension Monthly value: 14,660 yen FY2009

Employees' Pension Premium rate: 15.350% (shared equally by the employee and the employer) Sept. 2008-Aug. 2009
15.704% (shared equally by the employee and the employer) Sept. 2009- Aug. 2010

General fund flow of public pension

People

○ Public pension members (as of the end of FY2007):
70,070,000

National Pension - Category 1 insured persons : 20,350,000
National Pension - Category 2 insured persons.: 39,080,000
National Pension - Category 3 insured persons : 10,630,000

○ Beneficiaries (as of the end of FY2007)
34,800,000 (one out of every four people)

- Basic Pension (after paying premium for 40 years)
Monthly payment: 66,008 yen
- Employees' Pension (standard payment for a married couple)
Monthly payment: 232,592 yen

(FY2009)

○ Public pension makes up approx. 70% of aged population's household income
Proportion of public pension in the aged population's household income (2,989,000 yen):
70.8% (2,116,000 yen)

(National Livelihood Survey 2008)

Pension plans

National Pension
Employees' Pension
Mutual Aid Pension

Reserved pension assets for the
Employees' pension and National
Pension
(as of the end of FY2008)
123.8 trillion yen
(current value)

National government, etc.

Government contribution
to the pension system
(FY2007)
7.7 trillion yen

Premium

28.2 trillion yen
(approx. 8% of Japanese National Income)

(FY2007)

National Pension premium: 14,660 yen (since Apr. 2009)
Final value: 16,900 yen (from Apr. 2017, price decided in FY2004)
Employees' Pension premium ratio: 15.35% (since Sept. 2008)
Final value: 18.3% (from Sept. 2017)

Benefit

44.7 trillion yen
(public pension paid)

(FY2007)

cf. General expenditures of Japan
(Budget FY2008):
47.3 trillion yen

Overview of the Initial General Account Budget FY2009

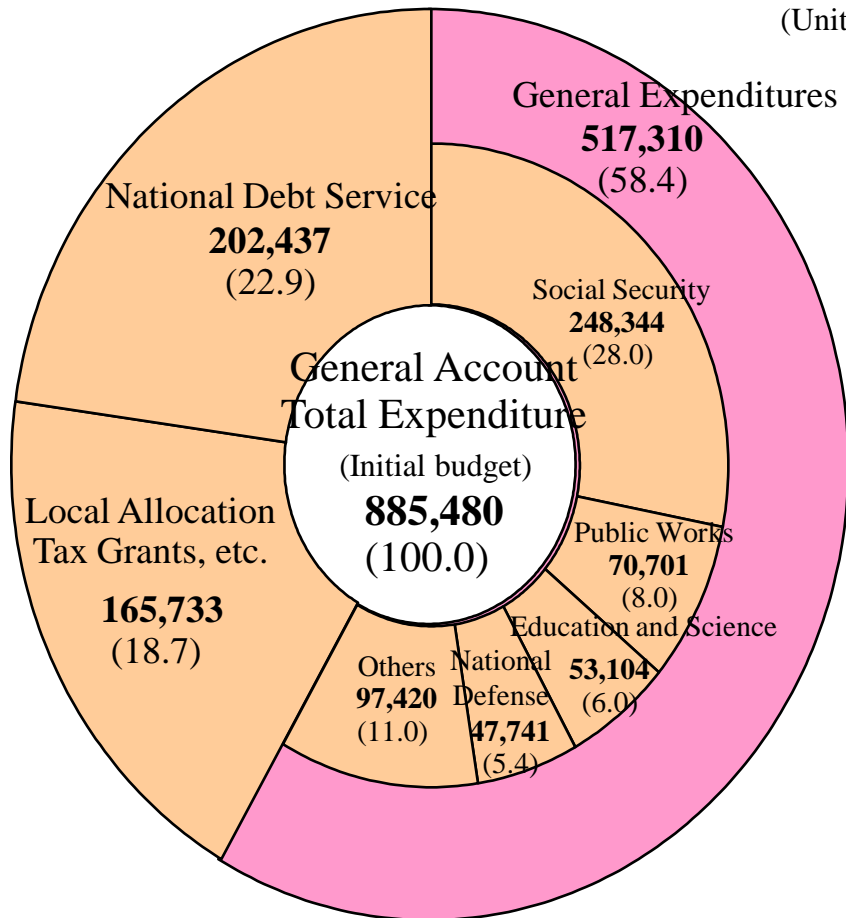
General account expenditure

- **Social security-related expenses (24.8 trillion yen), National Debt Service (20.2 trillion yen) and Local Allocation Tax Grants, etc.(16.6 trillion yen) occupy approx. 70% of total expenditures.**

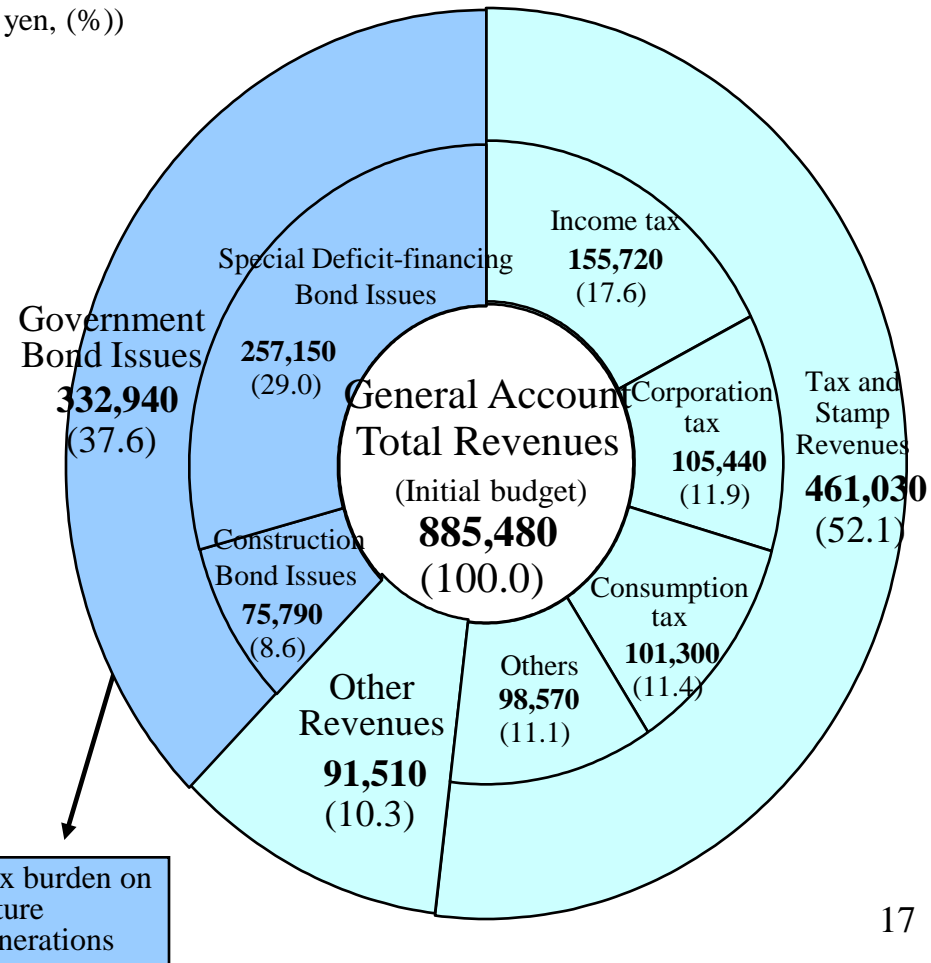
General account revenue

- **Tax and Stamp Revenues only make up little more than 50% of total.**
- **Of the remaining, some 33 trillion yen (37.6%) depends on revenues from Government bonds.**

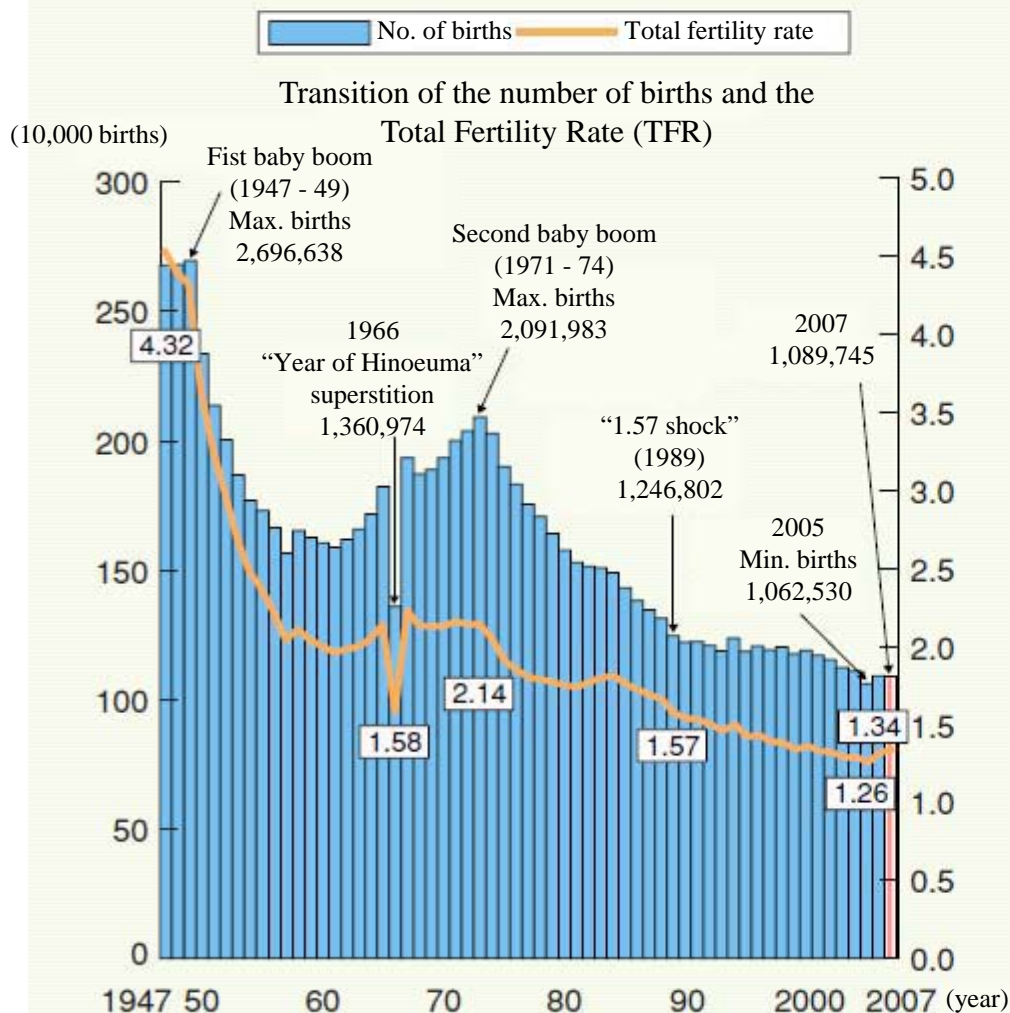
Expenditures



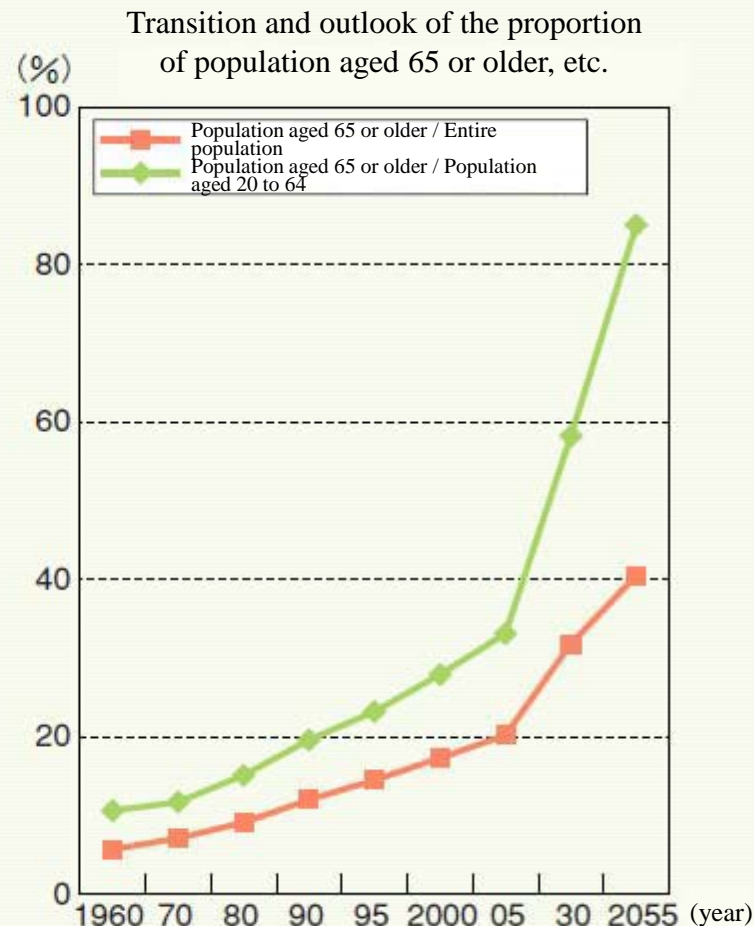
Revenues



Progressively lower birthrate and aging population

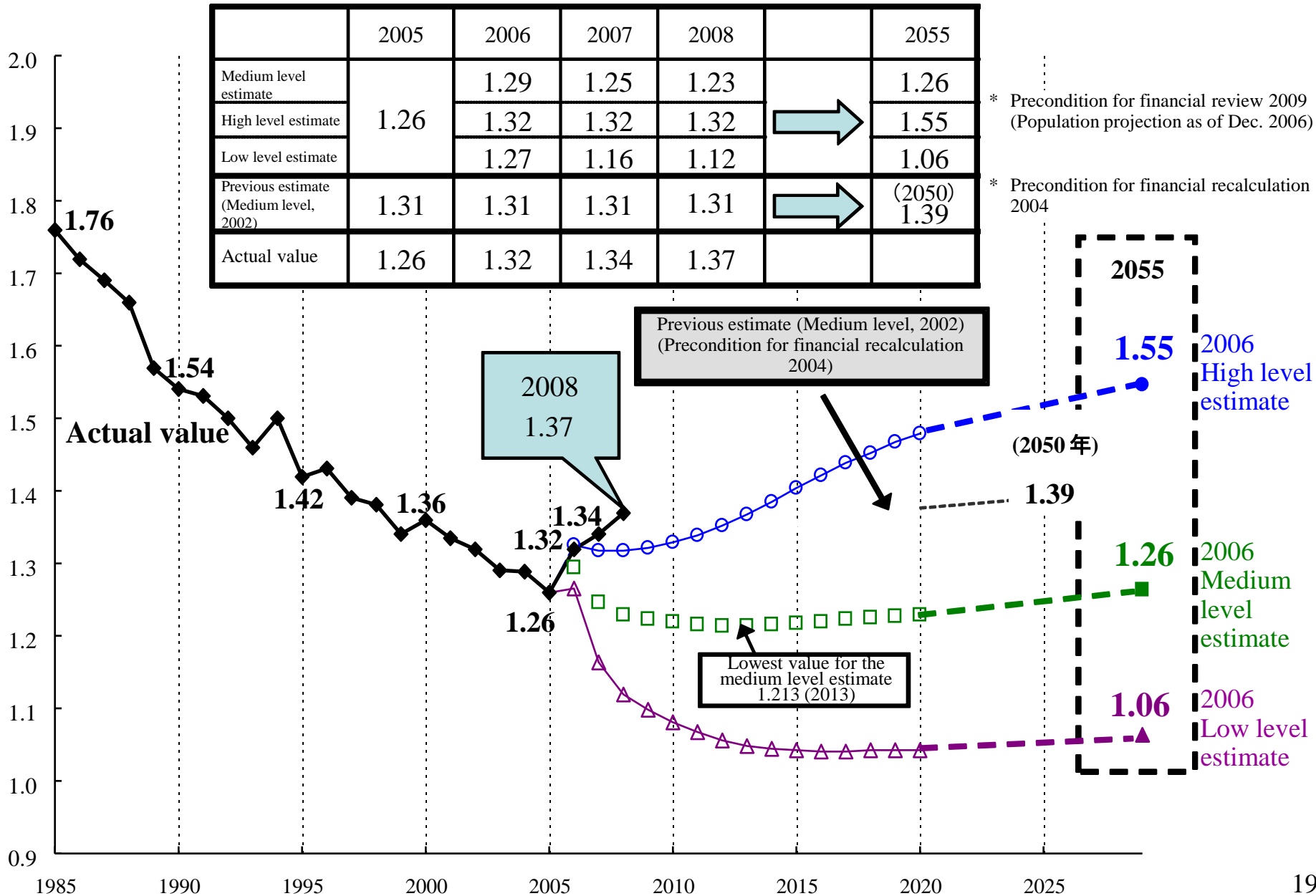


Source: Vital Statistics, Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour and Welfare
 Note: The values for 2007 are approximates.



Source: Compiled by the Office of the Director for Policy Evaluation, Attached to the Director-General for Policy Planning and Evaluation, from the Census and population estimates by the Statistics Bureau, Ministry of Internal Affairs and Communications; and Japan's estimated future population (as of Dec. 2006) by the National Institute of Population and Social Security Research

Transition of Total Fertility Rate and hypothetic values for estimated future population (estimated in 2006)



Framework of pension finance based on the pension system revision of 2004

In the pension system revision of 2004, a new framework of pension finance was developed through a review of both the payment and coverage aspects, in order to establish a sustainable and secure pension system that can support the progressively lower birthrate and aging population in the future.

* Financial review is required by law every five years (next: 2009) (for developing a long-term financial forecast, and verifying the framework set in the 2004 revision).

Framework of the revision in 2004

(1) Raising premium rates with a ceiling

Fix the premium rates for FY2017 onwards (* the premium rates and their increasing process are provided by law):

Employees' pension: 18.30% (shared equally by the employee and the employer) (raised by 0.354% annually, starting Oct. 2004)

National Pension: 16,900 yen (raised by 280 yen annually, starting Apr. 2005) (from the rate in 2004)

Reference: Present premium rates (as of June 2009): Employees' pension: 15.35%, National Pension Plan: 14,660 yen

(2) Introducing an automatic adjustment system (in proportion to the macro economy) for the payment level within the range of coverage

Adjust the pension payment levels in line with the decrease in working generations. The standard pension payment level should exceed 50% of the average income of working salaried worker households at the point of payment start, regardless of the progressively lower birthrate.

* Result of financial review in 2009 (published on Feb. 23): 62.3% (FY2009) → 50.1% (FY2038 onwards)

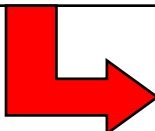
Reference: Present pension payments (as of FY2009): Basic pension (after paying premium for 40 years): monthly payment: 66,008 yen; Employees' pension (standard payment for a married couple): monthly payment: 232,592 yen

(3) Utilizing reserve fund

Financial balance is to be established within approximately 100 years, after which the amount worth 12 months of premium is to be reserved, which should be utilized for payment to later generations.

(4) Increasing the government's contribution rate for the basic pension to 50%

Following a fundamental tax system reform to ensure a stable resource for required funds, an increase in the contribution rate to 50% by 2009 is provided by law.



In order to establish a sustainable pension system, all of Frames 1 to 4 must be put into operation. Increasing the government's contribution rate to 50% is the final remaining challenge.